PSYCHOLOGICAL PROBLEMS FACED BY TRADERS IN STOCK MARKETS

SYNOPSIS

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Introduction

Stock Exchange means “anybody of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities." (Securities Contract (Regulation) Act, 1956).

Stock exchanges are secondary markets, where existing owners of shares can sell their share to the potential buyers of those shares. One must keep in mind that the companies or corporations that listed their shares do not buy or sell their own shares but the existing shareholders are the one who take part in the transaction through secondary markets. The first stock markets appeared in Europe in the 16th and 17th centuries, mainly in port cities or trading hubs such as Antwerp, Amsterdam, and London (Smith, 2004). These early stock exchanges dealt more in bonds as the small number of companies at that time did not issue shares. In fact, in those times the governments had ownerships in those companies so they are regarded as semi-public organisations and the government had a say in the conduct of business activities.

In the late eighteenth century, financial exchanges started showing up in America, quite the New York Stock Exchange (NYSE), which took into consideration value offers to exchange. The honour of the primary stock trade in America goes to the Philadelphia Stock Exchange (PHLX), which despite everything exists today (Caskey, 2004). The NYSE was established in 1792 with the consent of the Buttonwood Arrangement by 24 New York City stockbrokers and merchants. Before this official incorporation, traders and brokers would meet informally under a buttonwood tree on Wall Street to purchase and sell shares (Terrell, 2019).

In the modern age stock exchanges, which are under various regulations, it is ensured that buyers and sellers of shares will get fair prices and that within a reasonable period of time. Today, various stock exchanges throughout the world are electronically linked which helps the market to be more efficient and more liquid.

There are also loosely regulated over the counter exchanges, also known as bulletin boards or Over the Counter Bulletin Boards. Over the Counter Bulletin Boards shares fail to meet the strict listing criteria of bigger exchanges and they tend to be riskier because of that (SEC, 2013). The criteria may differ from the time of operation of the company before listing to company value and profitability (Dorsey & Whitney LLP, 2019).

Role of Stock Exchanges

1. Prepared Market:

Stock market is a prepared meeting place for buyers and sellers to exchange their shares. Those who are in need of cash and have shares can sell their shares to those who have cash and want to own the shares with the help of the

share market. Share market ensures liquidity to those who have shares and an investment avenue for those who want to own shares.

2. Regulated Market:

Stock markets around the world are regulated by the regulatory authorities and they have to adhere to the rules of the authorities. This makes these markets a safe place in respect to transactions and settlements.

3. Pricing of Securities:

With the help of secondary markets, real prices of the securities can be found out by demand and supply forces.

The price at which a transaction takes place is then recorded and published in the form of quotation.

4. Helps in Capital Formation:

Stock exchange helps in capital formation as it channels the savings to productive investments activities. Since stock markets are liquid and perceived as a good investment avenue by people, people tend to save and invest in stocks.

With the help of stock exchange, savings of people are channelized to productive activities that may otherwise be gone in destructive activities.

5. Industrial and Commercial Development:

Stock exchanges play a significant role in industrial and commercial development by channelizing the investment from inefficient companies to efficient companies. This shifting of investment is especially important for a country with scarce savings.

6. Acting as a Barometer of the Company:

Barometer is something that measures the pressure of different situations such as economic, social or political situations. Stock exchange is sensitive to economic, political and social conditions of the economy. These factors play a significant role in pricing of securities.

In fact, price trends at the stock exchange reflect the economic climate of the country.

7. Well-regulated Company Managements:

Companies listed in the stock exchange have to abide by the rules and regulations of the stock exchange. Hence, this makes the company well regulated.

8. Repository of Business Information:

Companies listed in the stock exchange have to file their financial statements, annual reports and other reports to the stock exchange. Such information is used for various purposes ranging from taking investment decisions by investors to formation of economic policies by the government.

Benefits of Stock Exchange Listing

Many entrepreneurs and business houses want to list their company in any of the reputed stock exchange because of the various benefits, which include:

1. Liquidity for shares held by company's shareholders.
2. It enables the company to raise additional funds by issuing more shares.
3. Publicly traded companies have good reputation that makes it easier to attract talented human resources.
4. Listed companies have greater visibility in the market and have demand for their shares from the big player which ultimately drives the prices up.
5. Listed shares are also used as a part of consideration at the time of acquisition of another company.

All these benefits drive companies to go public rather than staying a privately owned company.

Problems of Stock Exchange Listing

Like there are various benefits of listing, likewise, there are various problems which are associated with the listing on the stock exchange. These include:

But there are some drawbacks to being listed on a stock exchange, such as:

1. Listing of shares is a financially draining process as various costs such as listing fees and costs related to compliance and reporting are being associated with it.
2. Adherence to various regulations which may affect the ability of a company to do business freely.
3. Short term profit mentality of investors forces companies to take actions which have a positive effect on the short term rather than thinking about long term corporate approach.

Many large startups choose to list on an exchange at a very later stage as they have a seemingly large amount of funds at their disposal. For them exchange listing is much less a pressing issue.

The number of publicly traded companies in the U.S. is also shrinking—from more than 8,000 in 1996 to around to between 4,100 and 4,400 in 2017 (Brorsen, 2017).

World's Largest Stock Exchanges

Below table shows the list of world's 10 largest stock exchanges

Table 1: Top 10 Stock Exchanges in the world*

S.no	Stock Exchange	Country	Market capitalization ($Trillion)
1.	New York Stock Exchange	USA	$25.24
2	NASDAQ Stock Exchange	USA	$19.08
3	Shanghai stock Exchange	China	$6.9
4	Euronext Stock Exchange	Europe	$6.26
5	Japan Stock Group	Japan	$5.54
6	Shenzhen Stock Exchange	China	$5,34
7	Hong Kong Stock Exchange	China	$4.82
8	London Stock Exchange	UK	$3.39
9	Saudi Stock Exchange	Saudi Arabia	$3.33
10	National Stock Exchange	India	$3.29

Source : https://www.statista.com/statistics/270126/largest-stock-exchange-operators-by-market-capitalization-of-listed-companies. Accessed on September 30th, 2022

Stock Market in India

India has two major stock exchanges and bulk of trading is done in only those stock exchanges. These stock exchanges are: Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). Both exchanges are located in Mumbai. The BSE was formed in 1875 whereas NSE was founded in 1992 but came into operation in 1994. Regardless of all these, both stock exchanges follow the same trading mechanism, trading hours and settlement process.

The listed companies in BSE as of March 2022, are 16,243 (BSE Data) whereas the rival exchange had about 2,012 as of 31 March 2022 (NSE Data). But in BSE , only 500 firms constitute more than 90% of the market capitalization and the rest of the firms are still highly illiquid shares.

The BSE is the oldest stock exchange but the NSE is the largest stock exchange of India, in terms of volume traded. Hence, this makes NSE more liquid. As both exchanges compete with each other, this leads to reduced costs, innovation and efficiency.

Participants in Stock Market

Stock Exchange: A stock exchange is a location where buyers and sellers of securities can transact. It aids both the buyer and the seller in purchasing and selling the security. BSE and NSE are where the majority of trading in India takes place. Companies must follow the guidelines set forth by the exchange where they are listed.

Regulator: India's stock markets are governed by the Securities and Exchange Board of India, or SEBI. It guarantees that no market participant engages in any dishonest practices. It was founded in 1988, and the SEBI Act of 1992 granted it formal authority in 1992.

Listed Companies: Firms that have completed an Initial Public Offering (IPO) and registered themselves with the stock exchange after according to the established procedure are referred to as listed companies.

Stock Brokers: The intermediaries or agents who buy and sell securities on behalf of their clients are known as stock brokers. They are permitted to trade on the exchange because SEBI, the Securities and Exchange Board of India, has granted them a licence.

Brokers charge a fee for the brokerage services they offer to their clients.

Investors: Investors are the owners of shares of firms that are listed on the exchange, often known as shareholders or stockholders. They are eligible for certain privileges, including the ability to vote, the right to dividends, and other perks from the business. They are referred to as the business's owners. Through dividend payments, they received a portion of the company's profits. They also pose the greatest risk because they would be the last to receive payment if the company filed for bankruptcy.

Ordinary people who invest are known as retail investors, whereas large banks and fund houses who invest are known as institutional investors. Institutional investors can be domestic of foreign.

Trader: A stock trader is someone who makes a living by buying and selling securities like stock shares. Professional stock traders that work for a financial institution or private investors both trade stocks.

Clearing House: SEBI's subsidiary is Clearing Houses. They were established to guarantee the smooth settlement of trades taking place on several stock exchanges. Based on regular exchanges between buyers and sellers, they settle the payments and transfer shares.

Transfer Agents: As they keep track of changes in share ownership, Transfer Agents give the companies a list of their shareholders. The cancellation or issuance of certificates and the distribution of dividends fall under the purview of transfer agents.

Settlement Banks: The money needed to pay for the investor's purchased equities is kept by the settlement banks. When buying shares, they must ensure that the necessary money is on hand. They get paid at the time of sale in a similar manner. Additionally, they are in charge of submitting any necessary information and balances.

Depository: A depository is a business that facilitates the trade of securities by keeping them in dematerialized or electronic form. When a transaction occurs, it also moves the shares from one investor account to another investor account.

As a result, each stock market participant plays a unique role that is crucial to the market's efficient operation. All of these are connected to one another and are subject to the regulators' laws and regulations.

Traders and its types

A stock trader is a person who attempts to profit from the purchase and sale of securities such as stock shares. Stock traders can be professionals trading on behalf of a financial company or individuals trading on behalf of themselves. Stock traders participate in the financial markets in various ways (Chen, 2022). Since the study relates to traders, we will be only focusing on traders.

They try to make profit from short term price fluctuations. they believe that price tells you everything and all the news is already discounted in the price. They rely heavily on technical analysis and charts.

In order to gain from short term fluctuations in price, they provide liquidity which also helps investors to get in and get out of a particular stock. Liquidity means enough shares being available for sale and purchase.

Following are various types of traders (Tachev, 2022) -

Scalper: A scalper is a trader who takes hundreds of traders during a day in order to exploit very small price fluctuation. They take large quantiles and go for small price fluctuations. Hence by having the gain of small points on large quantities, they make the profit.

Intraday traders: An intraday trader is one who buys and sells the shares within the same day. These traders try to benefit from the intraday price fluctuations of shares. In this all the positions are closed within the day and no delivery of shares has taken place. Hence, no change of ownership takes place.

Short term Traders: A trader whose holding period is few days. This type of trader trades the fastest moving shares and tries to benefit from the volatility of the shares. They seek stocks that are moving significantly with large volumes in one direction and try to ride the momentum for profit.

Swing Traders: Swing traders are the person who hold their positions for few weeks. They try to capture an entire move of price from one point to another by holding the share and holding period can range up to several weeks.

Positional traders: A position trader is a type of trader who holds a position in an asset for a long period of time. The holding period may vary from several weeks to years. Other than “buy and hold”, it is the longest holding period among all trading styles. Position trading is pretty much the opposite of day trading.

Psychological Problems Faced by Traders

Psychological problems are the problems related to the mindset and many people face various problems while trading. The irrationality in decision making and the various problems that traders face due to which he/she is not able to make money out of the market. We all have heard about "Investments in the stock market are subject to market risk" but in reality, along with market risk, it is also subject to "I" risk. Even various studies in the past show that investors are irrational while trading the stocks. This irrationality results in lower returns and lower wealth for an individual and improper pricing of assets for the market.

Studying the psychological problems which investors face and how it affects the decision making for them is important because it causes mispricing of stock prices and ultimately the economic barometer of a country. It also helps individuals to avoid financial mistakes that ultimately affect performance.

Following are the problems which traders face while trading. Problems are based on the work done by Tharp (2009), Douglas (2000) and Steenbarger (2015).

1. Overconfidence
2. Herd Behaviour
3. Overtrading
4. Fear Of Missing Out (FOMO)
5. Greed
6. Disposition Effect
7. Loss Aversion
8. Fear of Losing
9. Refusing to be wrong
10. Anxiety

Efficient Market Theory : A Conceptual Background

""I'd be a bum in the street with a tin cup if the markets were efficient."

-Warren Buffett, Fortune 1995

According to the efficient market hypothesis (EMH), market prices fully reflect all available information. This idea, developed in the 1960s by Paul A. Samuelson and Eugene F. Fama, has been widely applied to theoretical models and empirical studies of financial securities prices, resulting in considerable controversy as well as fundamental insights into the price-discovery process. The most persistent criticism comes from psychologists and

behavioural economists who argue that the EMH is based on counterfactual assumptions about human behaviour, namely rationality. Recent breakthroughs in evolutionary psychology and cognitive neuroscience may be able to reconcile the EMH with behavioural anomalies.

Some experts have expressed serious reservations about the market's efficiency in the real world. They demonstrated through their research that the market does not always act efficiently. They have given credence to the existence of market inefficiency in the real world. The EMH's detractors argue that investors are frequently – if not always – irrational, engaging in predictable and financially ruinous behaviour.

One common explanation for deviations from the EMH is that investors do not always respond appropriately to new information. For example, in some cases, investors may overreact to performance by selling stocks that have recently lost money or buying stocks that have recently gained money. Such overreaction tends to push prices above their 'fair' or 'rational' market value, only for rational investors to take the other side of the trades and eventually bring prices back in line. Price reversals are one implication of this phenomenon: what goes up must come down, and vice versa. Another implication is that contrarian investment strategies – those in which 'losers' are bought and 'winners' are sold – will outperform. Different experts in the field tested and confirmed both of these implications.

Review of Literature

An evaluation of literature of the past is needed while conducting any research study. The literature has been collected and presented here. The literature is classified as per the objective of the study in three parts. Firstly, the profile of investors has been discussed. In the second part, the factors which promote investors to invest in market has been discussed. In the third part various psychological problems which traders face has been discussed.

Socio-Economic profile of traders

(Sood & Kaur, 2015) found out that there are more male investors as compared to female investors and majority are from 30-40 years of age. Among these about two-third of the investors are married and rest are unmarried. Half of the investors hold Post Graduate degrees. Half of the investors are salaried class and 16.7 % are in business and rest are housewives, students, professionals, retired and in others category. 83.3 percent sample investors were belonging to urban area and rest is to rural area. Most of the people have moderate investment experience. (Chintaman, 2008) did a study on investor protection in India with a focus on the cities of Rajkot, Vadodara, and Ahmadabad. 13 years were spent studying between April 1992 and March 2005. The study's findings showed that 38.67% of the population was between the ages of 31 and 45, 26% was between the ages of 46 and above, 23.33% was between the ages of 26 and 30, and just 12% was under the age of 25. As shown in the preceding studies, just 8% of the sample is made up of women. If we study income sensibly, very little of the annual income is invested in the market because 50% of respondents' answers fell between 0 and 40% and 41% to 81% and above. Only a small percentage of investors—11.33%—invested for the long term, and everyone else was interested in making short-term investments. Only 59 of the respondents combined information from TV channels, newspapers, magazines, and the internet with 91 choosing some other source, leading to the conclusion that there was no optimal application of trustworthy information. Most investors do not read regularly; in fact, just one-third of investors were aware of daily developments. Apart from a small portion of the entire sample, investors observed market trends prior to engaging in trading activities but did not thoroughly research the companies they were investing in. Only 8.67% of investors are interested in Depth Company reports to confirm their investment decision, which reveals a lax attitude on the part of the investors who participated. (Sharma & Sharma, 2004) examined the literature and emphasised how little stock investment activity is being done by retail investors in India. In the context of Jammu, a tiny emerging market, this article examined the behaviour and attitudes of retail investors regarding stock investing. The study's findings indicated that the typical retail investor is a young, educated trader. However, they have a fair amount of doubt about the ability of stock market institutions to regulate and about the safety of small investors. (Rajarajan, 2003) found out that the risk-taking ability of Indian investors has a substantial correlation with their demographic traits, with the relationship between age, income, and risk-taking capacity being particularly strong. The majority of all groups were made up of salaried members. (Singh & Yadav, 2016) found out that male

investors are more aware and they analyse the data before investing in the stock market. Male investors analyse financial ratios including the P/E ratio, the D/P ratio, and other liquidity ratios, whereas female investors are less comfortable with financial ratios due to a lack of financial literacy. Male investors examine the company's current financial status in terms of profitability, liquidity, and success in terms of productivity and innovation, whereas female investors are less comfortable with financial data due to a lack of financial literacy. Compared to female investors, male investors research stock exchange gainers and losers every day before purchasing equity shares. Female investors place more weight on the recommendations made by their friends and family, and they follow their advise when purchasing shares. Women investors are more cautious because they want to ensure the security of their money. People who are successful at investing in shares inspire female investors.

Factors promoting different types of traders to invest in the Share Market

(Moid, 2013) investigated the stock market-related investment mindset of 25–35-year-old blossoming investors in the Lucknow region. It was shown that the main drivers of stock trading activity were making investment profits and achieving financial progress. The majority of investors invest for growth and additional income, and the primary factor that guides their investment decisions is risk, indicating that investors are primarily risk averse. The chi-square method was used to test the hypothesis, and it was observed that there was a strong association between age, income, and investment decisions but no significant relationship between gender and investment decisions. (Singh & Yadav, 2016) found out that there are different motives for which people participate in stock market. There are many factors to take into account when investing, including tax planning, future demands, investment safety, recurring income, etc. Therefore, each individual investor should take these factors into account according to their needs. (Kabra, Mishra & Dash, 2010) found that different age groups and genders have very varied investment goals. If the risk is considerable, women's returns are compromised, thus they favour risk-free investments more. They also have a very important goal of gaining tax advantages. According to SEBI Investor Survey, 2015 investor’s primary objective to participate in capital markets is capital gain followed by improvement in lifestyle. There are other objectives for which investors participate in the equity market, namely, Liquidity, Retirement fund, Tax Saving, Home Buying, Future education needs. (SHAIK et. al ,2012) found through their research work on investment objective of the retail equity investors in India that their objective to participate in equity market is quick returns, capital growth, liquidity in investment and safety. Depending on their socioeconomic status and investment profile, investors place varying amounts of significance on different investing goals. Married investors, Investors with professional education, small and medium investors and people with moderate market experience have liquidity as their objective. Quick gain is prioritised by female investors, unmarried investors, Day traders. Salaried class and Investors with three and above earning members have capital

appreciation as their main objective and Investors having huge family and low market experience attach more importance to safety.

Psychological problems faced by traders

(Collard, 2009) found out that investors are risk averse (particularly women) and tend to minimise risk rather than maximise gains even in relation to long term investments like pension. Individuals do not behave according to economic theory when faced with complex decisions such as pension fund investment selection. Instead, they employ a variety of strategies and are influenced in a variety of ways, which may lead to decisions that are less than optimal in terms of providing them with an adequate retirement income. (Ciccone, 2003) explored that for which stock analysts are highly optimistic and have high expectations gives less returns because due to non-fulfillment of expectations, investors tend to disappoint which causes these firms to suffer persistently from low returns. Investors overestimate the growth prospects and thus inflate the prices. When these prospects do not turn into reality and expectations are not fulfilled, the returns are low. (Lo, Repin & Steenbarger, 2005) conducted an experiment on participants from Linda Bradford Raschke's day training program. They found a clear link between emotional reactivity and trading performance as measured by normalised profits-and-losses The data indicates that top performing traders are not affected by the profits and losses whereas emotional reaction toward the profits and losses are harmful for trading performance. This implies a negative correlation between successful trading behaviour and emotional reactivity. Furthermore, contrary to popular belief, the psychological traits derived from a standardised personality inventory survey instrument did not reveal any specific 'trader personality type' in the sample. This raised the possibility that, with proper instruction and practise, different personality types could function equally well as traders. (Dhaoui, Bourouis & Boyacioglu,2013) concluded that pessimism has a higher influence on trading volume as compared to optimism and overconfidence. Moreover, rational investors also have higher influence on trading volume than optimistic and overconfident investors. (Beilis, Dash & Wise,2014) asserted that regret and fear impact the traders' selling behaviour and affect the underlying prices of securities. In this paper the author says that the anxiety and fear of making wrong decisions has an impact on markets. The investors anticipate regret about making a wrong decision and this regret and fear induces the investor to sell more quickly. As a result of this the price is also adversely affected. (Shefrin & Statman,1985) coined the term Disposition Effect. Disposition effect can be defined as a pattern where investors keep on holding the losers and sell the winners. There were various explanations to this phenomenon. The most prominent being "loss aversion or regret aversion" Investors keep on holding the losers in order to postpone the pain of regret and sell the winners early to seek pride. (Prosad et al. ,2013) found out that overconfidence and disposition effects are present in the Indian equity market. There is a positive relationship between these two biases and the trading volume even after controlling for volatility. This means transaction volume increases when these two are present among investors.

Moreover, overconfidence is the dominant one among these two biases. Different scholars have researched the disposition effect among traders and its effect on the returns and capital of traders. (Seru et al, 2010) found that investors having disposition bias yields lower returns as compared to investors that are not affected by this bias. (Odean ,1998) suggested that people having disposition bias tend to lose more in terms of return on their capital than those who are not affected by the disposition bias. (Trinugroho, 2011) concluded that overconfident investors take aggressive and excessive trading strategies which ultimately leads to poor trading performance. “Bad news” doesn’t affect the decisions of overconfident traders in any manner. Overconfidence among traders leads to large volumes of transactions which leads to large cost and hence poor results. (Odean, 1999) found out that overtrading by traders leads to lower returns in the markets. Overconfident investors still take those bets where the expected return would be less than the transaction costs. Due to this behaviour their overall return takes a hit. Investors tend to sell those securities that have risen rapidly in the recent past. They do this in order to avoid the regret if the stock falls back. Whereas they keep on holding losers just to avoid the regret of bad decision (Barber & Odean,2011) researched on Behaviour of Individual Investors. They provided an overview of research on individual investors' stock trading behaviour. Individual investors (a) underperform standard benchmarks (e.g., a low cost index fund), (b) sell winning investments while holding losing investments (the "disposition effect"), (c) are heavily influenced in their purchase decisions by limited attention and past return performance, (d) engage in naive reinforcement learning by repeating past behaviours that coincided with pleasure while avoiding past behaviours that generated pain, and (e) Individual investors' financial well-being suffers as a result of these behaviours. (Chandra, 2008) concluded that Individual investors do not always make rational investment decisions. Individual investors are subject to a number of psychological and emotional biases. These biases are important in an investor's decision-making. Representativeness, overconfidence, and anchoring heuristics, regret aversion, anchoring, and mental accounting (drawn from Prospect theory), cognitive dissonance, and greed and fear all influence investor risk perception and decision making. According to the study's findings, investors seek risk and avoid selling stocks when they are losing money. They separate their investments into separate mental accounts set up to achieve a specific investment goal. Their asset allocation decisions for their portfolios are heavily influenced by greed and fear. Various Studies have been conducted in relation to other Stock Exchanges to find out the impact of behavioural factors on the decision making of stock market investors. Chun & Ming conducted one such study. They investigated Malaysian stock market investors' common underlying investor behaviour. Their study concluded that behavioural biases influenced stock market investors' investment decisions, and the findings indicated that representativeness and price anchoring were important contributory factors to the decision-making process. Investors were found to be extremely risk averse and overconfident. (Masomi & Ghayekhloo, 2011) studied the role of behavioural finance and investor psychology in investment decision making at the Tehran stock exchange, with a focus on institutional investors. The study looked at representativeness, overconfidence,

anchoring, the gambler's fallacy, loss aversion, regret aversion, and mental accounting. The findings revealed that behavioural factors do influence investment decision making. Heuristic processes and prospect theory were both evident, with heuristics clearly outperforming prospect theory in explaining the behaviour of institutional investors on the TSE. The most prominent were anchoring and the gambler's fallacy. (Ngoc, 2014) found out that Herding, Market, Prospect, Overconfidence- Gambler's Fallacy and Anchoring-ability bias were the biases that influence the decisions of investors at the Securities Companies in Ho Chi Minh City, Vietnam. (Kartasova, 2013) finds that the individual investors in Lithuanian Stock Exchange suffer from various biases. People mostly suffer from overconfidence. Overconfidence stems either due to experience or education in the economic or finance field. It is possible that education and experience give rise to overconfidence bias. Beginners take more risk and singles are more risky than married people. Decisions of people are also influenced by their mood. Hence it can be said that individual investors in Lithuania suffered from all basic biases, but overconfidence, anchoring, mental accounting and herd behaviour made the strongest influence on their financial decision-making process. Moreover, it should be noted that the influence of factors forming irrational individual investors' behaviour depends on their personal characteristics such as age, experience, gender and profession.

Conclusion to literature review

Various studies have been conducted in relation to the psychological issues that various traders face while trading. Only knowing how to trade does not guarantee success as trading performance is affected by various issues that a trader face while trading. Studies have shown that human being is risk averse and they have a tendency to minimise risk rather than thinking about how to maximise the gains. Particularly women tend to be more risk averse than men. This tendency leads to less-than-optimal results. Some researchers talked that overoptimism and overconfidence that can be fatal to trading performance as when reality does not match with the expectations, the returns are low. Overconfidence among traders leads to large volumes of transactions which leads to large cost and hence poor results. Moreover, overconfident trader tends to take those bets where the probability of profit is less. Traders are also prone to emotional reactivity. Emotional reactivity consists of Overtrading, Anxiety, Greed, Fear, Regret and FOMO but not only limited to these. Decisions taken as response to emotional reactivity negatively effects the trading performance. People tend to sell early due to fear and regret which adversely affect the security price and their performance.

Few researchers studied various traders and concluded that most traders suffer from a pattern, later termed as Disposition Effect. In this the traders keep on holding the losers and sell the winners. The psychology behind this pattern is that traders keep on holding the losers in order to postpone the pain that will trigger from loss and they sell the winners early in order to realize the pride that they would get from the profit earned. Due to this behaviour, they earn lower returns on their capital. Studies also indicate that due to all these behaviours an Individual investor

tend to underperform the standard benchmarks (eg. Low-cost index fund). They are influence with their own decision and exhibit the same behaviour again and again instead of learning from the past. Due to all these the financial well-being suffers.

These psychological problems are not only restricted to India but across the Globe traders face similar set of problems. Studies conducted on Malaysian stock market investors indicate that decision making by the people are highly influenced by the behaviour. People tend to be extremely risk averse and overconfident. People trade in Tehran Stock Exchange also suffers from various problems namely representativeness, overconfidence, anchoring, the gambler's fallacy, loss aversion, regret aversion, and mental accounting. The same issues were faced by traders at Securities Companies in Ho Chi Minh City, Vietnam. Studies conducted on the investors of Lithuanian Stock Exchange concluded that they suffer from various biases. Most people suffer from overconfidence which stems either from education or experience in economic and finance field. Decisions are not rational and influence by mood. Hence it can be said that individual investors in Lithuania suffered from overconfidence, anchoring, mental accounting and herd behaviour.

Gaps in literature

1. Various researchers have studied the issues which is being faced by people by trading but researchers do not study the socio-economic profile of traders which can give better idea regarding the problems a person face.
2. Various problems have been defined by various researchers but what are the common problems which a person tend to face is still not studied.
3. Study is not being conducted with reference to particular style of trading. Hence, this is still not known which style of trader face what kind of problem.
4. Issues have been identified but no recommendation has been given in order to minimise the issue so that the return on capital can be increased.

Research Issue

The existing literature does not study the socio-economic profile of traders while discussing the problems which the people face. Moreover, there is a need to conduct a study based on the particular style of trading so that a better conclusion can be made regarding the problems faced by different traders following different styles. **Hence, following research issues need to be examined.**

What is the socio-economic profile of a traders in terms of years of experience, age, educational qualification, invested capital, style of trading?

What is the objective behind actively managing money?

Which type of traders suffer from overconfidence while making decisions? Do these traders bet larger after each win?

Which type of traders take their decisions based on the crowd behaviour?

Which type of traders usually end up overtrading? What factors motivate them to go for overtrading? What are the problems and challenges faced by them during overtrading?

How does a sense of "missing on to the next big thing" prompt a trader to make decisions?

What psychological factors attract traders to go for more profit than their pre-defined target?

Does a trader cut the profitable position early and keep on holding the loss-making position?

What factors promote traders to withdraw themselves from taking a trade after all the required analysis has been done? Which factors influence traders most towards losing the invested money?

What factors promote traders to hold up the position way beyond the stop loss price?
What factors increase the anxiety of traders while trading?

The Scope of Study

In this study we will be focusing on the equity traders who actively manage their money. Those traders would be studied who trades only in "Cash market" segment. Only cash market participants would be studied because capital requirement is very less in cash segment as compared to other segments like F&O. Even beginners can also start with cash market. It does not include any institutions which are directly or indirectly associated with equity trading. Five styles of trading that is covered under this study are – Scalping, Intraday trading, Short-term trading, Swing trading and Positional Trading. This study is being carried to know the different issues which is being faced by different kind of traders. Through this study, each type of trader can know what are the major issues that majority of traders face while following each style. Hence, they can work on these or form strategy incorporating these issues so that the losses occurred due to these can be minimised. Moreover, rules can be framed keeping in mind the issues and a proper framework of trading can be formed. The benefit would be increased efficiency in trading and minimised losses.

Objectives of the Study

- To analyse the socio-economic profile of traders.
- To identify factors promoting different types of traders to invest in the Share Market.
- To identify psychological problems being faced by them and which problem most traders suffer from.
- To make suitable suggestions and recommendations.

Research Methodology

Data collection: - Primary data will be collected from the various traders actively trading in Indian Stock market. Traders who trade in cash segment of the market will be studied. Only cash market participants would be studied because capital requirement is very less in cash segment as compared to other segments like F&O. Even beginners can also start with cash market. Various social media sites and platforms like LinkedIn, Facebook, WhatsApp groups and Telegram groups will be used in order to contact these traders. Traders will be classified based on their experience and the style of trading they follow.

Questionnaire will be prepared keeping the objectives of study in mind and will be circulated through Internet in the form of Google Forms. Google forms will be used because subjects are geographically dispersed throughout India, therefore the most practical method of gathering data will be online questionnaires. Random Sampling technique will be used in this process.

The data collection will be based on the style of trading the participant follows.

Stratification: - Stratification of data is done on the basis of experience which will range from 0 years of experience to experience above 20 years divided into equal intervals. Moreover, traders will be divided on the basis of style they follow for trading.

Different styles of trading like Scalpers, Intraday Traders, Short term Traders, Swing Traders and Positional Traders will be considered for the study.

Sample size: The minimum sample size for this study will be determined using the sampling size table of Krejcie & Morgan (1970) and Raosoft.com (2019), which indicated a minimum sample size of 375 and 373, respectively.

Analytical Framework: The primary data collected during the study will be checked scrutinized, tabulated, analysed, compiled and presented systematically by using simple tabular methods and graphical methods. Statistical tools such as : tables, graphs, percentages, averages, mean and standard deviation etc will be used.

Benefits of Study

Each type of trader can learn from this study what the most common problems are while employing their chosen style. This will enable them to select the Trading style that best suits their personality. They will be aware of potential problems that they might encounter in the future, allowing the trader to address them or develop a strategy that takes these problems into account in order to reduce losses brought on by these problems. Additionally, guidelines might be developed for trading that take into account the problems. Losses would be kept to a minimum and trading efficiency would grow. Reduced losses would encourage more traders to participate and more money to flow into the market.

Limitation of the Study

This study mainly focuses on the problems which traders face while trading the markets day in and day out. As the study deals with the behaviour, traders might find it difficult to recall the problems which they have experienced in the past.

Thesis Outline:

Chapter 1: This chapter will provide a detailed introduction to the stock market, its role, benefits and problems of listing, various exchanges of the world, Indian exchanges, rise in Demat accounts etc.

Chapter 2: This chapter will provide a detailed analysis and review of existing literature worldwide.

Chapter 3: This chapter will provide details about the various problems that are being faced by traders which we are incorporating for the purpose of this study.

Chapter 4: This chapter will deal with the interpretation and analysis of data collected.

Chapter 5: This chapter will contain the results, implications, summary, and conclusion of the research study.

RESEARCH PLAN SCHEDULE

Research Activity	**Progress in Month**											
	18	**19**	**20**	**21**	**22**	**23**	**24**	**25**	**26**	**27**	**28**	**29**
Synopsis submission and approval												
Research gap identification and development of methodology												
Collection of data												
Data interpretation												
Conclusion, manuscript preparation for publication and thesis writing												

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CERTIFICATE

(SYNOPSIS APPROVAL CERTIFICATE)

This is to certify that the Synopsis for Ph.D. Thesis titled, **"PSYCHOLOGICAL PROBLEMS FACED BY TRADERS IN STOCK MARKETS"**, submitted by **Mr. Ramanuj Mishra** to the Career Point University, Hamirpur (H.P.), India in partial fulfilment of the requirements for the degree of **DOCTOR OF PHILOSOPHY** in the Department of Commerce & Management Studies, School of Management Studies & Liberal Arts has been approved by the Research Advisory Committee (RAC) after an Oral Examination of the student on dated 21st Dec, 2022.

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